

STATE OF WASHINGTON



OFFICE OF  
INSURANCE COMMISSIONER

**REPORT OF MARKET CONDUCT EXAMINATION  
OF  
UNITED SERVICES AUTOMOBILE ASSOCIATION  
GROUP**

**San Antonio, Texas**

**As of December 31, 1996**

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Seattle Washington

Deborah Senn  
Insurance Commissioner  
Olympia, Washington 98504

Pursuant to your instructions and in compliance with the statutes of the state of Washington, a market conduct examination has been made of the procedures, underwriting and claim files of

The United Services Automobile Association Group

USAA Building, 9800 Fredericksburg  
San Antonio, Texas 78288

and this report of examination is respectfully submitted.

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## EXAMINATION REPORT CERTIFICATION

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. This examination was performed by James Rigney and Shirley Merrill, who also participated in the preparation of this report.

I certify that the foregoing is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

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Pamela Martin  
Chief Market Conduct Examiner

## **SCOPE OF EXAMINATION**

This is the second market conduct examination of the United Services Automobile Association for the state of Washington. The prior examination was completed in 1990. In each examination, only the two property and casualty companies were examined. The companies are: United Services Automobile Association (USAA) and USAA Casualty Insurance Company (USAA-CIC) and may also be referred to in this report as >the Companies'.

This examination is based upon a review of the policies covering policyholders in Washington state from July 1, 1996 through December 31, 1996, and claim settlements for Washington insureds during the same time frame. The examination included all personal lines coverages except life insurance written by the companies. The examination focused on company procedures in the following areas:

- Advertising
- Complaints
- Rate and Form Filings
- Claim Settlement Practices
- Cancellation, Non-renewal and Declination Procedures
- Underwriting and Rating Practices

Practices and procedures noted in the prior examination report as a problem or concern were also examined. Specifically, a follow-up was made on the two instructions from the prior examination report:

1. The Companies were instructed to file for rate approval of rates used for their pleasure boat policy. The Companies had considered this marine insurance and therefore exempt from filing. See the "Rate and Form Filing" section of this report for details of the follow-up.
2. The Companies had been instructed to insure that all fees, sales tax and unexpired portions of license tabs are included in total loss settlements. See the "Claims" section of this report for details of the follow-up.

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## **HISTORY, MANAGEMENT AND OPERATIONS**

The origin of the USAA group dates back to the founding of the United States Army Automobile Insurance Association in June of 1922. The name was changed to United Services Automobile Association (USAA) when the company was relocated to San Antonio, Texas. In addition to USAA, The Group is composed of USAA Life Insurance, USAA Casualty Insurance Company (USAA-CIC), USAA General Insurance Company and USAA County Mutual Insurance Company. All of these companies are authorized Washington. This report deals only with USAA and USAA Casualty Insurance Company.

USAA was founded to provide insurance coverages for military officers and their dependants. The eligibility requirements remain the same today. Policyholders must be military officers or retired military officers. USAA-CIC provides coverage for former dependants of USAA policyholders.

General Robert T. Herres, USAF, Retired, is chairman of the board, president and chief executive officer. The members of the board of directors for USAA are:

General Robert T. Herres, USAF-Ret.

Colonel John D. Buckelew, USMC-Ret.

Lt. General Daniel W. Christman, USA

Vise Admiral Daniel L. Cooper, USN-Ret.

Lt. General Stephen Bruce Croker, USAF-Ret.

Colonel Leslie G. Denend, USAF-Ret.

Major General Fred A. Gorden, USA-Ret.

Major General Marcelite J. Harris, USAF

Mr. William J. Hybl

Rear Admiral Richard D. Milligan, USN-Ret.

Lt. General John Henry Moellering, USA-Ret.

Vice Admiral Kent H. Williams, USCG

Brig. General Myrna H. Williamson, USA-Ret.

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The members of the board of directors for USAA- CIC are:

Robert T. Herres  
Robert G. Davis  
Benjamin T. Hacker  
Bradford W. Rich  
John E. Ryan, Jr.

Wilson C. Cooney  
Steven F. Goldberg  
Jeffery A. Lewis  
Josue Robles, Jr.  
Edward L. Schrenk

The Group specializes in personal lines property and liability insurance; private passenger automobile, dwelling fire, homeowners, boat owners, personal liability, household goods, personal effects, a personal articles floater and personal umbrella policies.

All contracts are issued using independently filed rates. Since the USAA Group is a reciprocal exchange, a permanent power of attorney is secured from each subscriber (policyholder) with the original application for insurance.

Operations are conducted by mail and telephone on a direct basis from the home office located in San Antonio, Texas. Regional offices are maintained in Colorado Springs, Colorado; Reston, Virginia; Highland Falls, New York; Sacramento, California and Tampa, Florida.

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## ADVERTISING

The Companies advertise in various military publications such as the *Navy Times* and *The Retired Officer* as their market is exclusively military officers or ex-dependents of military officers and not the general public. They also publish a magazine every other month which is mailed to policyholders as an information and educational service.

Leaflets are often mailed with policies to the insureds advising of additional coverages or lines of insurance available or to educate insureds in safety areas such as usage of seat belts, air bags, infant seats and how to report a claim.

None of the materials reviewed appeared to be misleading, false, deceptive or discriminatory in nature or intention.

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## COMPLAINTS

The Companies define a complaint as "a written communication expressing a grievance." The Companies consider 2-6 business days sufficient to answer a complaint, depending on the nature and content of the complaint. It is the policy of the Companies to make an initial contact call to the complainant the day the complaint is received.

Written complaints are reviewed by the customer service coordinator. They are then sent to the appropriate department for analysis and final disposition. The Companies policy is to call the complainant and discuss the complaint and try to resolve the problem. A letter is then sent to the complainant confirming the call and the final disposition of the complaint.

All complaints are logged by the Companies recording the receipt date, the nature of the complaint, the final disposition and the amount of time it took to resolve.

A form is completed by the person who handled the complaint. The form requires that the reason for the complaint be shown and whether it involved a company error. If it was due to company error, the appropriate supervisor is responsible for determining the need for any corrective action, counseling or training to correct procedures.

The examiners reviewed 34 of the 119 complaints the Companies had received during the examination period. No errors in handling were noted.

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## **RATE AND FORM FILINGS**

The Companies are members of and/or subscribers to the following rating organizations applicable to their operations in Washington State:

Insurance Services Office (ISO)

Washington Surveying and Rating Bureau (WS&RB)

With the exception of the Dwelling Fire program developed by ISO, all other rates, rules, forms and endorsements are independently developed by the companies. The Companies have based their programs on their own loss experience, information from rating organizations and the needs of their unique type of insureds, i.e., military personnel around the world and their dependents.

A review of policy rates, rules, forms and endorsements was performed. From this review, the examiners requested verification of filing and approval of a random sampling of the materials. All materials appeared to have been filed and approved prior to use.

As mentioned in the "Scope of Examination" of this report, the examination completed in 1990 revealed the Companies had not filed the rates they were using for their pleasure craft policies as required in WAC 284-24-080. The Companies had considered these rates to be marine rates and did not file them. During the course of this examination, the examiners received verification of filing and approval of the boat rates in question. The rates had been approved June 1, 1990.

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## **CLAIMS**

### **FIRST PARTY AUTOMOBILE TOTAL LOSSES**

All automobile losses are reported directly to the home office in San Antonio, Texas via a 24-hour toll-free phone number. The basic information is taken on the phone and then assigned to an adjuster. The Companies also maintain claims offices in Federal Way, Washington and Colorado Springs, Colorado which serve Washington as well as other states. The claimant/insured are given the phone number and the name of the adjuster regardless of which office will be handling the claim. The adjuster will then contact the insured for more details of the loss, usually the same day. If the insured and/or third party's vehicles are driveable, appointments for appraisals are made at the Federal Way office when the report is first taken regardless of who reported the loss.

The companies closed 992 total losses during the period of this examination. Of the 992, the examiners reviewed 89 files for compliance with Washington "Unfair Claims Settlement Practices" regulations. All the files were reviewed for timeliness of contact with the insured, method of establishing actual cash value including sales tax, license and transfer fees and promptness of payment.

Once it is established that the vehicle is a total loss, the appraiser establishes the actual cash value (ACV) of the automobile. In attempting to arrive at the ACV, the appraiser will use an independent used car pricing service known as ADP Autosource Instant Valuation. If the insured or claimant won't accept the adjuster's offer based on the service's valuation, the adjuster will attempt to reach a fair settlement utilizing other means. The adjuster will ask the insured if there has been any recent work or new tires, etc. that would increase the vehicles value. The adjuster may then ask ADP Autosource to check again. The adjuster may do a survey of his own of local dealers, requesting quotes. The NADA Used Car Guide may also be used.

Four of the files reviewed indicated the adjuster failed to include the unexpired portion of the license fee or had computed it incorrectly. These files were given to management to review and in each case, a check was issued to the insured. The additional payments to claimants & insureds totaled \$676.21. See the Appendix for list of the claim files.

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In the prior examination, in 1990 it was learned the Companies did not always include an allowance for the unexpired portion of the license tabs in total loss settlements. The Companies were instructed to correct this. During the course of this examination improvement in this area was observed, however four claims (4.5% of the claims sampled) were found to be in error.

#### ALL OTHER CLAIMS

Third party liability, personal injury protection(PIP), underinsured motorist, homeowners losses and personal umbrella losses were also reviewed. Files were reviewed to determine if the Companies are in compliance with Washington "Unfair Claims Settlement Practices" regulations. The review included promptness of contact and settlement, file documentation, equitable settlement basis, denial procedures, and full disclosure of policy benefits to first party claimants.

Claims are usually assigned to an adjuster the day they are received by the Companies. Company standards require the adjuster to make contact with insureds or claimants within two working days. Occasionally independent adjusters were utilized and the Companies require these adjusters to meet the same standards.

When an automobile accident is first reported, the insured is asked if there are injuries to the insured driver or passengers in the insured vehicle, and if any other vehicle was involved (for subrogation purposes). If the driver of the insured vehicle or insureds passengers were injured, the Companies advise their insured that they are primary for medical (PIP) coverage for the injuries. A PIP, (Personal Injury Protection) loss packet is then mailed to the injured party.

Persons making claims for PIP benefits are advised that the Companies utilize a medical payment review service to assist in paying for charges that are reasonable and necessary. The name of the service is APD (Automatic Data Processing) Integrated Medical Solutions. The service audits medical bills for appropriateness, extent and cost of treatment. The Companies will also utilize an Independent Medical Evaluation (IME) to assist them in determining the need for treatments when an injury lasts for a long period of time. In the event there is not agreement regarding the amount of payment or appropriateness of services rendered, the covered person and their health care providers are encouraged to submit additional information to explain services given.

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Small dollar value homeowners claims made against policies with replacement cost coverage were settled based on replacement cost. Larger value homeowner claims with replacement cost coverage were settled pursuant to policy conditions on an actual cash value (ACV) basis unless or until the insured submitted receipts documenting



replacement for the difference between ACV and replacement. Additional payments were issued when documentation was received.

In cases where the Companies denied coverage for a claim, the denial was first given by phone by the adjuster and then confirmed by letter. The adjuster would cite any specific policy provision applicable as the reason for the denial. A copy of the provision cited was included in the letter. The insured was then invited to resubmit the claim or call the adjuster if they didn't feel the denial was appropriate.

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## **CANCELLATIONS, NON-RENEWALS AND DECLINES**

A total of 958 cancellations, non-renewals or declinations were processed by the Companies during the time frame of this examination. Of these, 100 were reviewed to determine if the Companies are in compliance with regulations regarding declination, non-renewal or cancellation of policies.

All notices of cancellation, non-renewal or declination were issued in a timely manner and contained the actual reason for the Companies actions.

The examiners questioned the decision of the Companies to deny writing coverage on a rental home because the home contained a day care center. WAC 284-30-700 defines an insurance company's refusal to write a homeowners policy because of the existence of a day care facility on the premises an unfair claim practice pursuant to RCW 48.30.010. WAC 284-30-700 does allow the Companies to exclude or limit coverage with respect to the liability of the day care facility. This finding was discussed with the Companies management.

Subsequent Event: USAA issued a memorandum dated November 11, 1997 to the Underwriting Department advising underwriters that it is prohibited in Washington State to deny writing coverage for their Renters policy package because of a day care on the premises. It is, however, permitted to exclude the liability exposure for the day care.

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## **UNDERWRITING AND RATING**

To be eligible for insurance in the USAA Company, an applicant must be a member of the USAA Group of Companies which is a cooperative. Membership is open only to

United States military officers, retired officers or former officers. The Group includes companies other than insurance companies, such as a travel agency, a buying service and a credit union. To be eligible for insurance in the USAA Casualty Insurance Company (USAA-CIC) you must be an ex-dependent of a USAA member.

Both companies employ a modified safe driver plan which allows surcharges for tickets, at fault accidents and inexperienced youthful operators. The USAA-CIC uses base rates approximately twenty percent higher than the USAA Company. The Companies do apply various discounts for safety devices such as airbags and anti-lock brakes, good student discounts and discounts for drivers age 55 and older who have successfully completed an accident prevention course.

Discounts are also available for application to other lines of insurance such as discounts for fire and burglar alarms on homeowners and renters policies, credits for boating safety courses or boating safety equipment.

The examiners reviewed approximately seven percent of all property and casualty policies the Companies wrote during the exam period. Policies were reviewed for compliance with law as well as accuracy in rating including driver age, usage, territorial or protection class assignment, construction type and the application of the various credits, discounts and surcharges. Policies were also reviewed to determine if underwriting practices followed the Companies' written guidelines, and if correct forms and endorsements were attached to all policies.

The Companies utilize a computer system to rate and issue policies. The examiners manually rated policies and compared these to the system rated policies to determine if the system had been programmed using approved rates. No errors were noted. When a rate or form change is approved, it is programmed into the system.

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The Companies are direct writers and do not use an agency system to sell their products. All quotes, policy changes or questions the insured or applicant may have are handled by telephone or through written correspondence. Insureds are supplied with toll-free numbers to call if they have questions or want to make changes in their policies.

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## **INSTRUCTIONS**

1. The Companies are instructed to amend their underwriting practices and guidelines to comply with WAC 284-30-700 regarding refusal to write coverage on homeowners or homes rented by the insured because there is a day care facility on the premises. (Page 13)

2. The Companies are instructed to comply with WAC 284-30-390(a) to ensure that all applicable taxes and fees are paid on total losses. (Page 10)

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## **APPENDIX**

The following is a list of the claim files referred to management to correct during the examination. See page 7 of the report.

1. 1740911
2. 7508101
3. 5369099
4. 857916